

Systems, Controls, and Legal Compliance



FINANCIAL MANAGEMENT SYSTEMS

FEMA's financial management system, the Integrated Financial Management Information System (IFMIS), is a commercial off-the-shelf system designed for government agencies and activities operating in a federal financial management system environment. IFMIS is separated into major functional subsystems:

- Funding;
- Cost Posting;
- Disbursements;
- Accounts Receivable; and
- the General Ledger.

The current version of IFMIS, implemented in FY 2002, satisfies an agency's Federal Financial Management System Joint Financial Management Improvement Program (JFMIP) core requirements.

FY 2001 FFMIA COMPLIANCE AND FMFIA MATERIAL WEAKNESSES

The independent audit (IA) of FEMA's FY 2001 financial statements indicated that FEMA's financial management systems and the financial statement preparation process needed improvement.

Financial Systems Improvements

The IA identified two improvements to FEMA's financial system: (1) information security controls for the financial systems environment; and (2) the financial system's functionality.

In response to the recommendations, the Financial and Acquisition Management Division developed and implemented a comprehensive Remediation Plan that addressed each one of the recommendations.

To further improve the financial management system, a new version of IFMIS was installed during the 4th quarter of FY 2002. This new version will make it possible for FEMA to produce and prepare financial statements and reports directly from IFMIS.

Financial Reporting Improvements

The IA identified four areas needing improvement in the financial statement process: (1) the reporting process; (2) the real and personal property accounting systems and processes; (3) the account reconciliation process; and (4) the accounts receivable process.

Number of Sub-systems in Non-Conformance by Fiscal Year

Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected by End of Fiscal Year	Number Remaining at End of Fiscal Year
1996	4	0	4
1997	4	0	4
1998	4	1	3
1999	3	0	3
2000	3	2	1
2001	1	0	2*
2002	2	0	2

*Includes: Financial System Documentation, and Non-Compliance with FFMIA (added during the FY).

FEMA is working on methods to streamline the reporting process to make it less labor intensive. Actions are underway to review property system requirements, and bills for collection have been issued for all amounts owed the Agency.

Number of Material Weaknesses by Fiscal Year

Fiscal Year	Number at Beginning of Fiscal Year	Number Corrected by End of Fiscal Year	Number Remaining at End of Fiscal Year
1996	3	1	2
1997	2	0	2
1998	2	1	1
1999	1	1	0
2000	0	0	0
2001	0	0	6
2002	6	0	6*

*Includes weaknesses in the Financial Statement preparation process: (1) the reporting process; (2) property accounting systems and reporting; (3) reconciliation process; (4) accounts receivable process; (5) general EDP controls; and (6) financial system functionality.

Because of the success of these efforts, and progress in other areas, financial management at FEMA moved to green on the OMB scorecard (see the description of the OMB scorecard on page 30) during the 4th quarter of FY 2002.

STATUS OF MANAGEMENT CONTROLS

A primary focus for financial management at FEMA is to integrate management controls with other management improvement initiatives, and to streamline budget and management reports to provide more useful information to decision makers.

The Financial Management and Acquisition Division conducted the following activities to improve internal and management controls:

- Performed quarterly analyses and reconciliations of general ledger account balances, held weekly status meetings with management and accounting staff, and conducted monthly reconciliation of fund balances with Treasury.

- Hired and trained 9 disaster comptrollers. Six comptrollers were certified after completing the Core Competency requirements. Also provided management control training to 39 students in the Comptroller/Acquisition Advanced training course and 23 students in the Basic Financial Management training course. Comptrollers are deployed to each disaster to ensure that financial management activities and controls are implemented properly.

- Ensured proper separation of duties between financial staff and reviewed and updated standard operating procedures and other documentation.

- Developed new and improved existing financial reports. Reports are standardized and include a range of data, from summary to comprehensive reports, that provide consistent, meaningful information to Federal Coordinating Officers and others who must make immediate operational decisions.

- Posted financial information to FEMA's Internet and Intranet Web sites to assist other federal agencies and FEMA employees in processing bills and progress reports in accordance with laws and regulations.

The Federal Insurance and Mitigation Administration (FIMA) implemented the following initiatives to help strengthen management controls for the National Flood Insurance Program (NFIP):

- Required audits of the Write Your Own (WYO) companies, and all that submitted a Biennial Audit in FY 2001 received unqualified opinions from their auditors.

- Continued claims re-inspection efforts with WYO companies which resulted in the NFIP being reimbursed for overpayments. This also resulted in additional premiums due to mis-rated policies. During FY 2002, the following enhancements were made to the process:

- Established Standard Operation Procedures (SOPs) for the Bureau and Statistical Agents' (B&SA) use to strengthen their documentation when reporting an overpayment, due to a special request or routine re-inspection. Also worked with B&SA to tighten control and oversight of the WYO companies statistical reporting errors, which will help to ensure the financial integrity of the NFIP.

- Monitored and analyzed trends or issues regarding deficiencies found due to re-inspections. This is helpful when scheduling and performing WYO operational reviews.

- Completed several full years of claims and underwriting operational reviews of the WYO companies, with reviews completed on all but three of the WYO companies. Companies that failed claims and/or underwriting operational reviews in FY 2002 are scheduled for revisit in FY 2003. These operational reviews were very beneficial and will be performed on all WYO companies.

- Chairing a Fraud Task Force along with staff from the Office of General Counsel and the OIG to conduct a review of the vulnerability of various program areas to fraud and to make recommendations on reducing vulnerability. Several management recommendations have already been implemented from the Task Force to include:

- Compiling and employing best practices from WYO special investigative units as they pertain to claims;

- Issuing underwriting bulletins clarifying the proper application of policy effective dates;

- Revising operational review procedures to increase the frequency of revisits to companies that fail reviews; and

- Putting controls in place to take stronger measures on companies that fail the operation reviews two consecutive times.

- Provided support to the OIG in their investigation of WYO companies investing NFIP funds which, along with debt collection efforts, has resulted in millions of dollars being reimbursed to the NFIP.

- Contracted with several CPA firms to assist in the adjusting and examination of NFIP claims in order to prevent and detect claim frauds.

- Completed updating and revising the Financial Control Plan (FCP). WYO companies use the FCP as a guideline to the regulations and procedures on the NFIP.

- The OIG has contracted with the accounting firm KPMG to conduct test of controls and compliance on several WYO companies as an element of their FY 2002 financial statement audit.

FEMA has made notable strides in recent years in its management of federal grant funding. In FY 2002, FEMA continued to realize major improvements to include:

- Increased monitoring of grant recipients' use of federal funds, and developed a report on regional grant monitoring to document those efforts and to keep top management apprised of progress being made.
- Held a regional grants conference to initiate the development of grant monitoring plans by each region. The monitoring plans focus regional efforts on the common theme of grant monitoring while, at the same time, allow each region to undertake improvements it determines necessary in its administration of grants.
- Issued procedural guidance to help clarify the information that is required from grantees in order to accurately report on the financial status of federal grants. This is expected to result in more accurate and consistent financial reporting by grantees. Other areas being monitored include the timeliness of payments, granting time of extensions, record retention, and cost share requirements.
- Facilitated the timely closeout of grants by providing technical assistance to regional offices from grant closeout teams. A Chief Financial Officer Field Support Team visits FEMA regions regularly to assist grants specialists and program staff in monitoring unliquidated funds. In addition, the Hazard Mitigation Grant Program recently issued policy guidance that set a three-year period of performance on HMGP project sub-grants and underscores the Agency's adherence to its time extension and closeout policy.
- Approved and distributed a Grants Handbook containing policies and procedures on the administration of FEMA's grant programs for disaster and non-disaster assistance to headquarters and regional offices.

■ Developing grants management training, both basic and advanced, to provide a consistent baseline level of knowledge and skills for grants as well as program staff. The Grants Office continues to assist with the Public Assistance Grant Administration course which will be updated and offered again in FY 2003 as will the Cooperating Technical Partners and Flood Mitigation Assistance and HMGP grant courses.

Particular effort has been made to ensure that solid management controls have been built into the new e-Grants system and process that supports the Assistance to Firefighters Grant (AFG) Program. These include:

- Precise positions/roles for staff that can affect processing of AFG grants, and access to the e-Grants system and its modules that is carefully controlled through a variety of checks and balances, and approval process.

■ Checks and balances within the program office through the separation of authority between the program staff role and the program manager role.

■ Checks and balances that exist in the grants office through the separation of authority between the Grants Management Specialist role and the Assistance Officer role (which is the only role that can obligate an award according to that AO's warrant level).

■ Similar checks and balances that exist in the Accounting Office through the separation of authority between the vendor file specialist role and the obligation file staff role.

■ Separation of authority between offices so that tasks that are designated to the program office can only be performed by those users with roles such as program staff and program manager. For example, no grant applications can be touched by the Grants Management Branch for award, until recommended for award by the program office.

■ Allowing only one application per fire department. Each application is compared to the established program criteria and the applications that match up best with that criteria are subject to a second level of review, which consists of a panel of three individuals with fire service background. Subject matter specialists then validate the panels' work, which is then confirmed by a fire program specialist.

■ Applications selected for award by the program office are reviewed for eligibility, completeness, reasonableness, etc., prior to award. The program office scrutinizes payment requests and the grants management staff also scrutinizes payment requests in excess of \$50,000 or 65 percent of the total grant.

■ Program office and grants management staff must approve scope of work changes, and 10 staff members are dedicated to the continued monitoring of the performance of the grants.

MANAGEMENT FOLLOW-UP TO OIG RECOMMENDATIONS

FEMA began FY 2002 with 24 audit reports carried over from FY 2001. These contained approximately \$35.9 million in costs (adjusted down slightly from the *FY 2001 Annual Performance & Accountability Report*) that should not be charged to the Agency's programs (disallowed costs). Another 8 audit reports represented just over \$1 million in funds that could be used more efficiently (funds put to better use).

During the year, 36 new audit reports were identified containing over \$8.5 million of disallowed costs. FEMA completed action on 32 of the total 60 open audit reports, recovering almost \$13.1 million. Seven new audit reports identified over \$8.8 million in funds to be reallocated (one audit accounted for \$8.5 million). Five of the total 15 audit reports of that type were closed. The table, next page, depicts these activities.

	Number of Audit Reports Identifying Disallowed Costs	Amount of Disallowed Costs	Number of Audit Reports Identifying Funds to be Put to Better Use	Amount of Funds to be Put to Better Use
Beginning FY 2002	24	\$35,892,817	8	\$1,003,526
New Audits During FY 2002	36	\$8,582,616	7	\$8,859,438
Audits Closed During FY 2002	(32)	\$(13,075,252)	(5)	\$(282,678)
End of FY 2002	28	\$31,400,181	10	\$9,580,286

The Agency continues to focus on audit report closing, especially audits that have been open for more than a year. In FY 2002, although the number of open audits increased slightly, we reduced the amount of outstanding disallowed costs by almost \$5.5 million. Despite this, some long-term disaster recovery and grant programs will remain open for an extended period, but closely monitored.